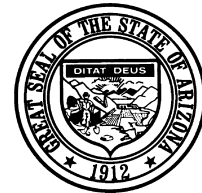


# ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

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[www.revenue.state.az.us](http://www.revenue.state.az.us)

## Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

## ADOR Prepares for Phase II of B.R.I.T.S.

The Department has completed Phase I of its BRITS Request for Proposal (RFP) process and is entering Phase II. In Phase I, the agency prepared the RFP and sent it to the State Purchasing Office for issuance to interested vendors. Those interested in the proposal submitted the documentation required in order to be considered for Phase II. Four organizations have been selected to come to the Department in order to develop their proposals for the final reengineering contract. The process is expected to take six months, at the end of which a single proposal will be accepted and a contract awarded. During Phase II, potential vendors will be working with Department employees as they learn about current business processes and practices. Since the contract will be a benefit-sharing arrangement, the potential vendors will actually be business partners as they find ways to enhance revenue streams through increased efficiencies. The major efficiency sought by the Department is an integrated database and data distribution system that will improve customer

service and financial effectiveness. The integrated system will include significantly expanded E-commerce and Customer Relations Management (CRM) features that will increase the speed and quality of customer interactions.

## Reorganization

The new organizational chart is available on the BRITS (Business Reengineering Integrated Tax Systems) page of the Department's website ([www.revenue.state.az.us](http://www.revenue.state.az.us)). The key feature of the organizational change is the implementation of the Leadership Team that replaces the traditional Assistant Director structure. The Leadership Team is responsible for the prioritization and allocation of resources and for strategic policy and decision-making. This model is continued in several functional areas (formerly known as Divisions) increasing the use of team dynamics as a management tool. These internal changes do not effect our interface with the practitioner community. Charts that will detail the structure of the three major programs have been completed and will be available on the website soon.

*By Thomas F Waters*

**\*\*\* REMINDER \*\*\***

**FOR NON-EFT TPT FILERS**

**To avoid a delinquency, postmark your  
July 2001 TPT return no later than  
August 27, 2001 or deliver to DOR no later  
than August 30, 2001.**

**March Summary of  
General Fund Revenues**

	<u>March 2001</u>	<u>Fiscal Year Total</u>
<b>Individual Income Tax</b>		
Net Collections	(\$35,083,725)	\$1,341,371,311
Percent Change *	N/A	(2.5%)
<b>Corporate Income Tax</b>		
Net Collections	\$28,690,041	\$352,545,713
Percent Change *	1.0%	20.2%
<b>Transaction Privilege, Severance &amp; Use Taxes</b>		
Net Collections	\$232,107,424	\$2,216,941,098
Percent Change *	(0.6%)	6.4%
<b>Total Big Three Tax Types</b>		
Net Collections	\$225,713,740	\$3,910,858,122
Percent Change *	(23.9%)	4.2%

( ) Decrease from same month last year.

\* Percent change from same month last year.

**Individual Income Tax**

**Individual Income Tax Receipts**

	<b>March 01</b>	<b>March 00</b>	<b>%Change</b>
Gross Collections	\$22,269,973	\$28,175,439	(21.0)
Withholding	196,813,767	200,877,280	(2.0)
Refunds*	(221,129,745)	(162,810,295)	35.8
Urban Rev Sharing	(33,037,720)	(31,475,916)	5.0%
<b>Net Collections</b>	<b>\$35,083,725</b>	<b>\$34,766,507</b>	<b>N/A</b>
<b>Fiscal Year Total (00/01) (99/00) % Change</b>			
Gross Collections	\$325,376,255	\$325,256,297	0.0%
Withholding	1,776,010,827	1,695,622,999	4.7%
Refunds*	(462,676,292)	(362,101,804)	27.8%
Urban Rev Sharing	(297,339,480)	(283,283,242)	5.0
<b>Net Collections</b>	<b>\$1,341,371,311</b>	<b>\$1,375,494,250</b>	<b>(2.5%)</b>

**TAX CALENDAR**

**AUGUST 2001**

<u>Due Date</u>		<u>For Period Ending</u>
15	Income Tax Returns: Form 120: Corporation Form 140: Individual Form 141: Fiduciary Form 165: Partnership	4/30/01
15	Form 120: Corporation with Automatic Extension	10/31/00
15	Form 120S: S Corporation	5/31/01
15	Form 99: Exempt Organization Annual Information Return	
	Form 99T: Exempt Organization	3/31/01
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	4/30/02
	Second Installment	2/28/02
	Third Installment	11/30/01
	Fourth Installment	8/31/01
20	Form TPT-1: Transaction Privilege Tax: July Monthly Filers	7/31/01
20	Bingo: Financial Reports	7/31/01
20	Luxury Tax: Various Forms	7/31/01
27	EFT Form TPT-1 and Payment: Transaction Privilege Tax: July Monthly Filers	7/31/01

**Withholding Information:**

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below.

Subscription information may be obtained from:

Tony Manzo at (602) 542-3062 or toll free 1 (877) 863-0655.

# Legislative Summary 2001

The 2001 Legislative Summary provides a brief summary of the tax-related bills that were enacted by the Arizona State Legislature and were approved by the Governor.

Over the next few months the TaxNews will feature Legislative Summaries by tax type.

This month: Income Tax, The general effective date is August 9, 2001

## **HB 2015 (Internal Revenue Code Conformity) – Chapter 296**

HB 2015 updates the definition of the United States Internal Revenue Code (IRC) for the tax year 2001 to the IRC definition in effect on January 1, 2001 for Arizona tax purposes. The bill is effective on the general effective date.

## **HB 2016 (NOW: Equity Tax Act; Archaic Laws) – Chapter 382**

HB 2016 repeals certain sections of the criminal code relating to (1) open and notorious cohabitation – A.R.S. § 13-1409, (2) the infamous crime against nature – A.R.S. § 13-1411, and (3) lewd or lascivious acts – A.R.S. § 13-1412. The bill amends other sections to delete references to the repealed sections.

The bill amends A.R.S. § 43-1001 to exclude the provisions of Internal Revenue Code § 152(b)(5) from the definition of “dependent”.

The amendment to A.R.S. § 43-1001 is effective retroactively to taxable years beginning from and after December 31, 2000. The remainder of the bill is effective on the general effective date.

## **HB 2527 (Enterprise Zone Program; Extension; Enhancements) – Chapter 370**

HB 2527 extends the repeal of enterprise zone program from July 1, 2001 to July 1,

2006 and makes several modifications to the program. Among the changes to the enterprise zone program are:

- Stipulates the limitations for zone formation as set forth in statute do not prevent the department from renewing existing Enterprise Zones, or those certified in the first year under federal census poverty data.
- Permits businesses with no more than 10% of their retail activity at the location, measured by the number of employees assigned to retail, in the Enterprise Zone to be eligible for the program.
- Requires documents submitted to the Department of Revenue and Department of Commerce concerning the tax incentives contain either a sworn statement or certification. If the document contains materially false information, the taxpayer is ineligible for the tax incentives and subject to recovery of funds for prior years.
- Maintains the \$2 million investment requirement of those businesses located in Maricopa and Pima counties.
- In the other counties, and that have no portion of the corporate boundaries located within twenty-five air miles for the exterior boundary of the largest city in the county, tiers the minimum investment requirements for small manufacturers in rural areas:

*(Continued on page 4)*

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- \$2 million for communities with a population of 80,000 or more persons.
- \$1 million for communities with a population of 10,000, but less than 80,000 persons.
- \$500,000 for communities with a population of less than 10,000 persons.
- Requires DOR to submit an annual report on or before September 30 of each year. The report is to contain enterprise zone valuations, fiscal impact on each taxing jurisdiction of the enterprise zone and the total amount of tax credits allowed.

The amendments to A.R.S. §§ 20-224.03, 43-1074 and 43-1161 are effective retroactively to taxable years beginning from and after December 31, 2000, the extension of the repeal of the program is effective retroactively to July 1, 2001 and the remaining sections are effective on the general effective date.

### **HB 2637 (Conditional Appropriations; Taxation; Revenue Forecasts.) – Chapter 235**

HB 2637 conditionally appropriates monies from the state general fund in FY 2001-2002 and FY 2002-2003 to a number of programs and to tax cuts based on revenues exceeding current revenue forecasts. After a \$50 million ending balance is secured, then the conditional appropriations organized into three “priority tiers” are enacted by “trigger mechanisms” when revenues exceed the thresholds specified in the bill.

The bill contains an appropriation to the Department of Revenue in the first triggered

priority tier. The department is appropriated \$1,685,000 in FY 2001-2001 and \$1,000,000 in FY 2002-2003 for the transaction privilege tax database. DOR is required to bill local jurisdictions for an additional \$2,685,000 to provide 50% of reworking the sales tax database. The billing is to be in proportion to a local jurisdiction’s share of total state of Arizona’s population. Before the expenditure of the state general fund appropriation, the department must submit an expenditure plan to the Joint Legislative Budget Committee for review. The plan shall include a description of how this particular project interacts with the department’s overall computer replacement plan.

Tax reduction provisions are contained in each of the three priority tiers. The first priority tier provides for a reduction in the lowest individual income tax rate for taxable years beginning from and after December 31, 2001. The second priority tier also provides for an additional reduction in the lowest individual income tax rate for taxable years beginning from and after December 31, 2001.

The first and second priority tiers contain a provision to reduce the lowest individual income tax rate. The first priority tier will reduce the rate from 2.87% to 2.84%. The second priority tier will continue this reduction by further reducing the lowest rate to 2.81%. The lowest rate applies to the first \$10,000 of income for single filers and the first \$20,000 of income for married filing joint filers. The rate reductions are for taxable years beginning from and after December 31, 2001. Each rate reduction results in approximately \$6,570,000 of taxpayer savings, for a total of \$13,140,000.

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The third priority tier combines two corporate income tax reductions. If this trigger is met, then the corporate rate will be reduced from the current rate of 6.968% to 6.8%. This equals a tax savings of approximately \$10 - \$12 million. In addition, the corporate apportionment formula will be changed to allow multi-state corporations the option to use an alternative formula. The current apportionment formula applies a double-weighted sales factor meaning that sales account for 50% of the formula and property and payroll factors are each 25% of the apportionment formula. The alternative option will allow multi-state corporations to choose a more heavily weighted sales factor of 65% and property and payroll factors will each be 17.5%. This results in a tax savings of approximately \$19 - \$22 million.

In addition, the bill increases the standard deduction allowed on individual income tax forms. This tax reduction is not triggered. The standard deduction for single/married filing separate is increased from \$3,600 to \$4,050. The standard deduction for married filing joint/head of household is increased from \$7,200 to \$8,100. This increase in the standard deduction is effective retroactively to taxable years beginning from and after December 31, 2000, and will result in a savings of approximately \$14.9 million per year.

### **SB 1132 (Estimated Income Tax; Payment; Penalties) – Chapter 30**

SB 1132 amends A.R.S. § 43-581 with respect to when estimated payments are required for individual taxpayers.

- Single taxpayers, heads of household,

and married taxpayers filing separate returns will be required to make estimated payments if their Arizona gross income exceeds \$75,000 in the current year and was greater than \$75,000 in the preceding taxable year. (Currently, these taxpayers are required to make estimated payments if their Arizona gross income in the current year can reasonably be expected to exceed \$75,000 or was greater than \$75,000 in the preceding year.)

- Married taxpayers filing a joint return will be required to make estimated payments if their Arizona gross income exceeds \$150,000 in the current year and was greater than \$150,000 in the preceding taxable year. (Currently, married taxpayers filing a joint return must separately determine their Arizona gross income to determine whether an estimated payment is required. An estimated payment is required if either spouse's Arizona gross income in the current year can reasonably be expected to exceed \$75,000 or was greater than \$75,000 in the preceding year.)

The bill changes the current year income required from "reasonably expected to exceed" the threshold amount to "exceeds" the threshold amount.

The bill provides an exception for estimated payments if the taxpayer's Arizona income tax liability due on the taxpayer's return is less than \$1,000.

The act is effective for taxable years beginning from and after December 31, 2001.

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## **SB 1136 (Tax Administration; Federal Conformity) – Chapter 163**

SB 1136 makes changes to various Department of Revenue (DOR) administrative practices.

- Clarifies that the Arizona statute of limitation extension applies to those items in a state audit that were also identified in a federal audit.
- Allows a principal corporate officer to execute written authorization for the receipt of confidential information for a controlled subsidiary.
- Expands who may receive confidential tax information between DOR and corporations. In addition to the corporate principal officer, any authorized person may receive the information; if they are designated by the principal officer on the Corporate Board of Directors (or similar body.
- Gives the DOR the discretion to grant appropriate relief for a determinate number of years to a taxpayer with corporate apportionment issues that determine the corporations multi-state activities in Arizona.

- Clarifies that taxpayers have the choice to file a copy of the final determination of their federal audit or an amended tax return with DOR.
- If the taxpayer disagrees with the final determination they can request DOR to recalculate the state tax liability and the recalculations will not be considered a state audit. DOR can ask for an amended return from the taxpayer if they do not have enough information to recalculate the taxpayer liability.

The amendments to A.R.S. § 42-1104 are effective and apply to taxable years beginning from and after December 31, 2001, and the remaining sections are effective on the general effective date.

## **SB 1187 (Uniform Principal and Income Act.) – Chapter 175**

SB 1187 repeals Arizona's Revised Uniform Principal and Income Act and replaces it with a new Revised Uniform Principal and Income Act. The replacement version is the Uniform Principal and Income Act most recently adopted by the National Conference of Commissioners on Uniform State Laws. The act is effective from and after December 31, 2001.

## **IRS Interests Rates for Over/Under Payments**

The Internal Revenue Service has announced that interest rates for the calendar quarter beginning July 1, 2001 will be dropped by 1% for both underpayments and overpayments. Therefore, the Department of Revenue's interest rate will become 7% for underpayments and will also become 7% for overpayments.

Under the Tax Reform Act of 1986, the rate of interest is determined on a quarterly basis. The overpayment/underpayment rates are now the same as the Department of Revenue has conformed to the 1999 I.R.C., passed during the 1999 Legislative Session.

## Avondale Change in City Tax Code Effective July 1, 2001 (Non-Program City)

The Mayor and City Council of the City of Avondale passed ordinance 777-01. Ordinance 777-01 increases the Avondale City Privilege Tax from 1.5% to 2%. The tax rate increase affects the following classifications:

- ◆ Advertising
- ◆ Amusements
- ◆ Construction contracting
- ◆ Job printing
- ◆ Manufactured buildings
- ◆ Timbering & other extraction
- ◆ Publishing
- ◆ Hotels
- ◆ Rental of real property

- ◆ Restaurant & Bars
- ◆ Retail sales
- ◆ Telecommunications
- ◆ Transporting for hire
- ◆ Utilities.

This increase imposed by this ordinance shall not apply to construction contracts entered into prior to the effective date of the ordinance.

Ordinance 777-01 also imposes a two-tier tax on retail sales for single items with a cost of \$5,000.00 or more.

If a **single item** is sold at a cost of **\$5,000.00 or more**, the privilege tax, under the retail tax classification, will be taxed at a rate of **1.5%**.

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## IRS Advance Payment Refund Update

The Economic Growth and Tax Relief Reconciliation Act of 2001 approved by Congress and signed by President Bush directs the Treasury to send checks to most income taxpayers this year, giving them an advance payment of a 2001 tax credit. This is a reduction of tax and is not taxable income on the federal tax return.

The Internal Revenue Service will automatically process these advance payments after taxpayers have filed their returns for Tax Year 2000. Taxpayers will not have to complete applications, file any extra forms, or call the IRS to request their payments.

Taxpayers who have moved since filing their last tax return should receive the IRS letter and the check if they have filed a change of address with the U.S. Postal Service or the IRS. Under procedures instituted earlier this year, the IRS uses the Postal Service's National Change of Address database to update its own taxpayer address files weekly. Taxpayers may also notify the IRS directly by filing Form 8822, "Change of Address," which is available on the IRS Web site.

For more information call: 800 829-1040 or visit the Department of Revenue website:  
[www.revenue.state.az.us/IRS-advance\\_payment.htm](http://www.revenue.state.az.us/IRS-advance_payment.htm).